



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**FILED**

07-20-06  
03:49 PM

In the Matter of the Application of  
Southern California Gas Company  
(U 904 G) Regarding Year 12 (2005-  
2006) of Its Gas Cost Incentive  
Mechanism.

Application 06-06-017

## **PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES**

### **I. INTRODUCTION AND SUMMARY**

In accordance with Rule 44.1 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), the Division of Ratepayer Advocates (DRA) hereby submits its protest to the Application (A.) 06-06-017 of Southern California Gas Company (SoCalGas). The application was filed on June 15, 2006 and was calendared on June 20, 2006. This protest is timely filed on July 20, 2006.

On June 15, 2006, SoCalGas submitted its twelfth annual application under the Gas Cost Incentive Mechanism (GCIM). The GCIM was initially approved by the Commission in D.94-03-076, was modified and extended in D.97-06-061, and was further extended on an annual basis in D.98-12-057. In D.00-06-039, the Commission's staff was ordered to conduct and submit an evaluation of the GCIM on or before January 1, 2001, and the Commission deferred judgment on whether it would extend the GCIM into Year Seven until completion of the report.

In D.02-06-023, the Commission approved a Settlement Agreement executed in July, 2001 by SoCalGas, DRA, and The Utility Reform Network (TURN). The major

highlights of the Settlement Agreement include (1) the revision of the sharing bands<sup>1</sup>, (2) the cap to the shareholder awards<sup>2</sup>, (3) the core storage inventory targets<sup>3</sup>, (4) the elimination of the NYMEX program component, and (5) the application of settlement modifications to the Year 7 GCIM.<sup>4</sup> The same decision extends the GCIM on an annual basis into Year Eight and beyond until modified or terminated by further Commission Order. Further background on the GCIM program established by the Commission is set forth in SoCalGas' application.

In GCIM Years Seven and Eight, the Commission approved shareholder awards for SoCalGas in D.03-08-065 and D.03-08-064, respectively, for reasonably managing its gas acquisitions and operations. Both decisions provided that the awards would be subject to refunds or adjustment as may be determined in I.02-11-040.<sup>5</sup>

In D.04-02-060 for GCIM Year Nine, the Commission agreed with SoCalGas' request for a shareholder award of \$6.3 million which was approved subject to refund or adjustment, as may be determined in I.02-11-040. In D.05-04-003 for GCIM Year Ten, the Commission agreed with SoCalGas' request for a shareholder award of approximately \$2.4 million which was approved subject to any refund or adjustment determined in I.02-11-040.

---

<sup>1</sup> Ratepayers retain all of the savings in the 0-1% range, 75% of savings in the 1-5% range, and 90% of the savings that are more than 5% below the benchmark.

<sup>2</sup> Shareholder reward is capped at 1.5 percent of the actual annual gas commodity cost.

<sup>3</sup> The core November 1 storage inventory target would be 70 BCF of physical gas supply with a +5 BCF and -10 BCF accepted variance.

<sup>4</sup> Other uncontested provisions of the settlement addressed transportation acquired by the Gas Acquisition Department in excess of retail core requirements; utilization of firm pipeline capacity; consultations with DRA and TURN on capacity commitments in excess of 2 years; Advice Letter filing to implement amendments to GCIM required by application A.0101021; and continuance of SoCalGas annual GCIM applications and DRA's audits and annual monitoring and evaluation reports.

<sup>5</sup> In I.02-11-040, the Commission is investigating the gas market activities of the utilities and their impact on the gas price spikes experienced at the California border from March 2000 through May 2001.

SoCalGas' Application, A.05-06-030, for GCIM Year Eleven, along with a Joint Recommendation of DRA, TURN and SoCalGas, is currently pending before the Commission.

In the instant Application, SoCalGas reports on the results of its Year Twelve GCIM for the 12 months ending March 31, 2006. The Application requests authority to recover a shareholder incentive reward of approximately \$9.8 million. SoCalGas states that it generated cost savings of \$69.1 million below Year Eleven benchmark market prices. According to SoCalGas, its procurement customers will have received a benefit of \$59.3 million and shareholders should be authorized to recover, through the Purchased Gas Account (PGA), a \$9.8 million reward, reflecting the sharing formula approved by the Commission in D.02-06-023.

## **II. DISCUSSION**

Rule 6(a)(1) of the Commission's Rules of Practice and Procedure requires that applications "state the proposed category for the proceeding, the need for hearing, the issues to be considered, and a proposed schedule." SoCalGas proposes that its application be categorized as a "ratesetting" proceeding. DRA concurs with this categorization.

SoCalGas does not believe that a hearing is necessary given the record that has already been developed in other Commission proceedings and the GCIM settlement adopted by the Commission in D.02-06-023. DRA agrees that a hearing may not be necessary for this proceeding, contingent on the findings of its report.

SoCalGas' Application identifies only one issue that needs to be considered in this proceeding: Whether SoCalGas should be awarded the GCIM Year Twelve shareholder award of \$9.8 million.<sup>6</sup> DRA's concurrence with SoCalGas on this matter will only be possible after a thorough review of SoCalGas' Year Twelve GCIM activities.

---

<sup>6</sup> See page 10 of SoCalGas Application.

As in the past, DRA will prepare an annual monitoring and evaluation report which will incorporate an audit of SoCalGas' recorded PGA costs, an analysis and verification of the GCIM calculations, and an evaluation of the manner in which the program operated under Year Twelve market conditions.

On October 19, 2005, SoCalGas filed an emergency petition seeking to perform its hedging activities outside of its CPIM. In D.05-10-043, the Commission granted SoCalGas' winter 2005-2006 emergency hedging plan and modified D.02-06-023 and D.03-07-037 in the manner requested by SoCalGas. This served to alter the SoCalGas GCIM compact by removing the costs associated with the winter hedge plan from the GCIM. In fact, it is quite possible that the authority granted in D.05-10-043 could have resulted in a higher reward for SoCalGas shareholders than that which would have resulted under the traditional pre-D.05-10-043 GCIM compact.

Ordering Paragraph 5 of D.05-10-043 stated, "At the next review of the incentive mechanism filings covering the 2005-2006 winter, SoCalGas, SDG&E and ORA shall address the effects of the hedging and rate treatment of the hedging costs authorized in today's decision so that the Commission can assess and evaluate how these hedging activities have performed." Therefore, in SoCalGas' instant GCIM proceeding, DRA can address additional issues such as (a) the impact of SoCalGas' hedging outside the GCIM Year Twelve on the shareholder reward, (b) the effects of the hedging, the rate treatment of hedging costs, and related performance of the hedging instruments, and (c) whether or not the alteration to SoCalGas' GCIM served to increase the shareholder reward, and if so, by how much. DRA's can address other related matters, as necessary.

SoCalGas has proposed a schedule that incorporates an October 16, 2006 mail date for DRA's testimony. DRA has no objection to the schedule proposed in the application and intends to file its report on October 16, 2006.

### **III. CONCLUSION**

DRA plans to serve its GCIM Year Twelve monitoring and evaluation report regarding the SoCalGas application on October 16, 2006. DRA's report may address

additional issues beyond those identified in SoCalGas' application. DRA agrees with SoCalGas' proposed categorization of this proceeding as ratesetting and agrees that there is a potential for resolving the issues raised by the application without hearings. The schedule proposed by SoCalGas for resolving issues of this proceeding is reasonable and appropriate.

Respectfully submitted,

/s/ RASHID RASHID

---

Rashid Rashid  
Staff Counsel

Attorney for the Office of Ratepayer Advocates

California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Phone: (415) 703-2705  
Fax: (415) 703-2262

July 20, 2006

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a copy of “**PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES**” in **A.06-06-017**, by using the following service:

[ X ] **E-Mail Service:** sending the entire document as an attachment to an e-mail message to all known parties of record to this proceeding who provided electronic mail addresses.

[ ] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on **July 20, 2006** at San Francisco, California.

/s/            REBECCA ROJO

\_\_\_\_\_  
Rebecca Rojo

**N O T I C E**

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

\*\*\*\*\*

**Proceeding No.: A.06-06-017**  
**E-MAIL ADDRESSES**

mthorp@sempra.com  
ghealy@semprautilities.com  
centralfiles@semprautilities.com  
case.admin@sce.com  
jol@cpuc.ca.gov  
rhd@cpuc.ca.gov